California Public Utilities Commission

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News Release

FOR IMMEDIATE RELEASE Docket #: R.01-10-024

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PUC ENSURES THE LIGHTS STAY ON BY ADOPTING ENERGY PROCUREMENT FRAMEWORK FOR UTILITIES

SAN FRANCISCO, January 22, 2004 – The California Public Utilities Commission (PUC) today assured that California will have the resources to prevent electricity shortages by unanimously adopting a framework under which the state's three investor-owned utilities (IOUs) will plan for and obtain the energy resources and demand-side investments necessary to ensure their customers receive reliable service at low and stable prices.

"Today the Commission took a huge step in assuring that California's consumers and businesses will not suffer another energy shortage. Through the framework we have adopted, we will promote environmentally sensitive resource choices (such as energy efficiency, demand response, and renewables), set power reserves to protect California's electricity grid, and adopt a process to provide the public and all interested parties more open access to the Commission's decision-making on long-term power procurement issues," said PUC President Michael R. Peevey.

The PUC looks to the utilities to pursue an integrated resource planning process that balances the need for additional generation, transmission, and demand-side investments and to do this in a public proceeding that allows all interested parties an opportunity to participate. Each utility is required to adhere to upfront standards in conducting their power procurement and to be accountable for operating in a manner that mitigates the risks of high prices, ensures reliable service, and delivers measurable value to their customers.

The Commission endorses a hybrid market structure, with the utilities able to own generation, and other generators competing through a Request for Proposals (RFP) process to provide new generation.

Among the key issues adopted today:

Resource Adequacy:

- Utilities, Energy Service Providers, Community Choice Aggregators, etc., must acquire sufficient power reserves for customers.

- Utilities must meet a 15 – 17 percent reserve requirement no later than the beginning of 2008.
- Utilities must forward-contract 90 percent of load plus reserves a year in advance for the summer months (May through September), but the Commission reserves the right to revise this if it creates market power problems.
- Establish workshops to develop resource adequacy frameworks for use in utilities' long-term plans, to be updated and adopted in 2004.

Market Structure:

- The utilities should procure power consistent with the resource preferences stated in the Energy Action Plan approved by the PUC, the California Energy Resources Conservation and Development Commission (CEC), and the California Power and Conservation Financing Authority (CPA).
    - Utilities are directed to meet resource needs first through cost effective energy efficiency, demand response, and renewable resources prior to considering the addition of conventional supply or transmission resources.
    - Utilities should include provision for customer-owned, as well as utility-owned, distributed generation, and to propose a methodology for weighing the tradeoffs between transmission and generation investments.
- Utilities should have a diversified resource portfolio.
    - Utilities should procure a mix of contract lengths and types.
    - Utilities should increase the degree of diversity of fuel types and sources.
    - Resource choices can be made through an RFP process.

Qualifying Facilities (QF) Policy:

- Existing QF contracts will be upheld.
- Allows QFs with contracts expiring before 2005 to extend those contracts for 5 years, ensuring that California does not lose valuable and efficient generation resources.
- Declines to allow new QFs to provide power to utilities until the current methodologies to establish prices for QF power are modified by order of the PUC in a forthcoming proceeding.

Peaking Needs:

- Utilities are directed to work with the California Power Authority (CPA) to determine if the CPA can provide favorable financing for future projects that provide peaking power for California. Utilities also must include explicit treatment of their peaking needs in their long-term plans.

The Commission also adopts short-term procurement authority for 2005 for the utilities in order to allow them to begin the normal cycle for procuring products required for summer 2005. This authority for 2004 already exists. Utilities will re-submit their long-term procurement plans in mid-2004, following the Commission's adoption of specific resource adequacy criteria to be addressed in upcoming workshops. In the long-term plans that the utilities will prepare, each utility is required to provide a range of load forecasts including Community Choice Aggregation (CCA) and core/noncore scenarios.

"While today's decision takes a strong step toward creating a framework for the future energy needs of California, the coming year will allow us to review the utilities' long-term plans to ensure that they prioritize energy efficiency and renewables while not foreclosing options for Community Choice Aggregation," said Commissioner Loretta M. Lynch.

The Commission expects to open a new Procurement proceeding in the first quarter of 2004 that will further refine power procurement, and to address 1) reviewing and adopting revised 2004 long-term procurement plans for the three utilities; 2) treating confidential information; 3) developing procurement incentive mechanisms for each utility; 4) developing a long-term policy for expiring QF contracts; 5) reviewing audits of SDG&E's and PG&E's electric procurement transactions with their regulated affiliates; and 6) handling any remaining resource adequacy issues not resolved in the workshop process.

On Dec. 18, 2003, the PUC adopted short-term procurement plans for Pacific Gas and Electric Company (PG&E), Southern California Edison, and San Diego Gas and Electric Company (SDG&E) and decided procurement issues that needed to be resolved prior to Jan. 1, 2004 (D.03-12-062). The remaining issues that were part of evidentiary hearings held during July and Aug. 2003 are addressed in today's decision.

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